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Department of the Treasury
Internal Revenue Service
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Alternative Minimum Tax

For use in preparing
1985 Returns

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Introduction

The tax laws give special treatment to some kinds of income and allow special deductions for some kinds of expenses. So that taxpayers who benefit from these laws will pay at least a minimum amount of tax, two special taxes have been enacted—the "minimum tax" and the "alternative minimum tax." The "minimum tax" applies only to corporations and is discussed in Publication 542, *Tax Information on Corporations*, and Publication 589, *Tax Information on S Corporations*.

This publication discusses the "alternative minimum tax," which applies to individuals, estates, and trusts. Before 1983, individuals, estates, and trusts were subject to the minimum tax. If you deferred minimum tax in a year when it still applied to individuals, estates, and trusts, see *Deferred minimum tax*, later in this introduction.

Alternative minimum tax. The alternative minimum tax is figured on benefits received in the form of deductions, lower tax rates, and exclusions from tax. These benefits are known as "tax preferences" or "tax preference items" because they result from the preferential treatment given in the tax law. However, generally only the amount of the benefit received minus the benefit that would otherwise be allowed is counted as the tax preference item.

Partnerships. A partnership does not itself pay either of these taxes. However, each member of a partnership must take into account his or her distributive share of the partnership's tax preference items.

Estates and trusts. The tax preference items of an estate or trust are divided in the same way that the income of the estate or trust is divided.

S corporations. The tax preference items of an S corporation are generally divided among the shareholders in the same way that any corporate losses would be divided. The S corporation itself does not pay minimum tax except on certain capital gains. If capital gains are taxed to the corporation, to figure the tax preference item for capital gains for the shareholders, include the corporation's net long-term capital gain reduced by applicable taxes paid by the S corporation. See Publication 589 for information on how to compute an S corporation's minimum tax.

Deferred minimum tax. If you had minimum tax in a pre-1983 year that you were able to defer because you also had a net operating loss in that year, you must pay the minimum tax as you deduct the net operating loss carryover. The amount you must pay this year is 15% of the portion of the net operating loss carryover you are able to deduct this year that is attributable to tax preference items.

Individuals, estates, and trusts should report this amount on line 52 of Form 1040 (or line 31 of Form 1041). A worksheet is provided at the end of this publication for use in figuring your deferred minimum tax.

Estimated tax. When you figure your estimated tax for 1986, you must include any alternative minimum tax you expect to have to pay in 1986. See Publication 505, *Tax Withholding and Estimated Tax*.

Earned income credit. Starting in 1985, you must reduce your earned income credit by your alternative minimum tax liability. See Publication 596, *Earned Income Credit*, for more information about the earned income credit.

Tax Preference Items

Because some income and deductions are given special treatment under the tax laws, many taxpayers would pay little or no tax if it were not for the alternative minimum tax. This section discusses the tax preference items that are used to figure this special tax.

Even though they are not listed as tax preference items, some itemized deductions can also result in a liability for the alternative minimum tax. Therefore, you may have to pay the tax even if you have no tax preference items. See *Figuring Alternative Minimum Tax*, later.

The following are the tax preference items for alternative minimum tax:

1) The dividend exclusion. The first $100 ($200 in the case of a joint return) of ordinary dividends from domestic corporations is not included in taxable income. The full amount that is excluded is a tax preference item.

2) Capital gains. The capital gains deduction—the untaxed part of a net long-term capital gain—is a tax preference item. Generally, this is figured by subtracting net short-term capital losses from net long-term capital gains for the year and multiplying the result by 60%. This is the amount on line 22, Schedule D (Form 1040) or line 9, Form 4798. If you had an amount on line 14, Form 1040, the 60% of your capital gain distribution not reported on line 14 is a tax preference item. However, any part of a capital gains deduction that is figured on gains from the sale of your principal home is not included as a tax preference item.

3) Accelerated depreciation on real property. This tax preference item is the depreciation or amortization you took during the year on real property, minus the depreciation you would have been allowed to take under the straight line method. You must figure this amount separately for each separate item of property. Generally, each building (or its component) is a separate item of property. Do not figure this tax preference for an item of property in the year that you dispose of it.

For property you depreciate as 15–year, 18–year, or 19–year real property under the accelerated cost recovery system (ACRS), figure straight line depreciation using a recovery period of 15 years for 15–year real property, 18 years for 18–year real property, and 19 years for 19–year real property and no salvage value. (Form 6251, *Alternative Minimum Tax Computation*, indicates only 15– and 18–year property because 19–year property was added under provisions of a tax law enacted after the form was printed.) However, if the actual recovery period is longer than 15, 18, or 19 years, you will not have a tax preference item. The accelerated cost recovery system is explained in Publication 534, *Depreciation*.

For property you depreciate under another method, figure straight line depreciation using the same basis, useful life, and salvage value that you first used to depreciate the property. If you did not use a useful life or salvage value, the useful life or salvage value for straight line depreciation is the one that would have been proper if you had actually taken depreciation under the straight line method.

If you amortize rehabilitation expenses for low-income rental housing or for a certified historic structure, the way you figure straight line depreciation depends on whether you would have otherwise depreciated your rehabilitation expenses under ACRS. If the property you rehabilitate would have qualified for ACRS, use a 15–year recovery period to figure straight line depreciation. If the property you rehabilitate would not have qualified for ACRS, figure the straight line depreciation that would have been allowed had you not claimed rapid amortization.

4) Accelerated depreciation on leased personal property. This tax preference item is the

depreciation or amortization you took during the tax year on personal property you leased to others, minus the depreciation or amortization that you would have been allowed to take if you had used the straight line method.

You must figure this preference item separately for each separate item of personal property you lease out. However, do not figure it for the year in which you dispose of the property.

For leased personal property that you depreciate under the accelerated cost recovery system (ACRS), figure straight line depreciation using a half-year convention, no salvage value, and the following recovery periods:

For:	Use a recovery period of:
3-year property	5 years
5-year property	8 years
10-year property	15 years
15-year public utility property	22 years

However, if the actual recovery period is longer than that listed for the property, you will not have a tax preference item. The accelerated cost recovery system is explained in Publication 534.

For property that you depreciate under methods other than ACRS, figure straight line depreciation using the same basis, useful life, and salvage value that you first used to depreciate the property. If you did not use a useful life or salvage value, then the useful life for straight line depreciation is the one that would have been proper if you had actually taken depreciation under the straight line method.

5) Amortization of certified pollution control facilities. Your amortization deduction for a certified pollution control facility, minus the depreciation deduction that you would normally be allowed, is a tax preference item. However, it is not a tax preference for the year in which you dispose of the facility.

Note: The depreciation normally allowed may be more than straight line depreciation and thus itself may result in an item of tax preference under (3) or (4) above. However, to the extent that the amortization deduction is treated as a preference item under this paragraph, it is not an item of tax preference under (3) or (4).

6) Percentage depletion. If your depletion deduction for the year is more than your adjusted basis in the property at the end of the year (figured before reducing the basis by the depletion deduction), the difference is a tax preference item. This preference item should be figured separately for each separate piece of property being depleted.

7) Intangible drilling and development costs. If you deducted intangible drilling and development costs for oil, gas, or geothermal wells, figure your tax preference for this deduction as follows:

a) Begin with your deduction for intangible drilling and development costs, but keep the deduction for geothermal properties separate from the deduction for oil and gas properties. The tax preference for oil and gas is figured separately from the preference for geothermal energy.

b) Subtract the amount you could have deducted if you had capitalized these costs and used straight line recovery. For straight line recovery deduct these costs evenly over 120 months beginning with the month in which production from the well starts, or you may elect to deduct them under any method that would be used in figuring cost depletion.

c) Also subtract your net income from the properties. Net income is gross income from all oil, gas, and geothermal properties minus all deductions allocable to these properties, except intangible drilling and development costs in excess of straight line recovery.

The result is your tax preference item. (But, see *Optional write-off*, later.) However, this tax preference item does not apply to nonproductive wells. Nonproductive wells are those that are plugged and abandoned without ever having produced oil, gas, or geothermal energy in commercial quantities for any substantial period of time. But, a well that is merely temporarily shut in is not considered a nonproductive well.

8) Mining exploration and development costs. This tax preference item is the amount you are allowed as a deduction for mining exploration and development costs in the current year, minus the deduction that would be allowed if the exploration and development costs were amortized over a 10-year period. However, see *Optional write-off*. This preference item should be figured separately for each mine or other natural deposit (other than an oil or gas well).

9) Circulation costs. The amount you are allowed to deduct in the current year for the cost of establishing, maintaining, or increasing the circulation of a newspaper, magazine, or other periodical, minus the amount you would be allowed to deduct if these circulation costs were amortized over a 3-year period, is a tax preference item. However, see *Optional write-off*.

10) Research and experimentation costs. The amount you are allowed as a deduction in the current year for your research and experimentation costs, minus the deduction you would be allowed if these costs were amortized over a 10-year period, is a tax preference item. However, see *Optional write-off*.

11) Incentive stock options. If the fair market value of stock you buy under an incentive stock option is more (at the time you buy it) than the price you pay, the difference is a tax preference item.

For an incentive stock option granted after March 20, 1984, the fair market value of a share of stock is determined without regard to any restriction other than a restriction which, by its terms, will never lapse. This does not apply to any incentive stock option granted before September 20, 1984, pursuant to a plan adopted or corporate action taken by the board of directors of the grantor corporation before May 15, 1984.

12) Bad debt deductions—financial institutions. The deduction that is allowed for a reasonable addition to a financial institution's reserve for bad debts, minus the amount that would have been allowed based on actual loss experience, is a tax preference item.

Tax benefit rule. You may reduce the total of your tax preference items by any amount that does not actually serve to reduce your income tax. In figuring the extent to which your tax preference items reduce your income and thereby provide you a tax benefit, you are considered to first use all your nonpreference deductions, followed by your tax preference items to the extent needed to reduce your taxable income to zero.

Optional write-off. You may choose to deduct over a 10-year, 5-year, or 3-year period certain costs that you could otherwise deduct in a single year. If you make this choice, these costs will not be considered tax preference items and will not be used in computing alternative minimum tax.

10-year write-off. The costs you can choose to deduct in equal installments over 10 years are:

Research and experimentation costs,

Mining exploration and development costs, and

Intangible drilling and development costs.

5-year write-off. Intangible drilling and development costs (incurred with respect to wells located in the United States) that are not allocable to an interest as a limited partner in a partnership or as a nonactive shareholder in an S corporation may be deducted over a 5-year period using the percentages indicated below.

Tax Year	Percentage
First	15%
Second	22%
Third	21%
Fourth	21%
Fifth	21%

3-year write-off. You can choose to deduct in equal installments over a 3-year period the cost of increasing the circulation of a newspaper or periodical.

Choosing the optional write-off. You must choose the optional write-off by the due date (including extensions) of your income tax return for the year for which you are making the choice. Attach to your return a statement which includes:

1) Your name, address, and social security number.
2) The specific write-off you are choosing.
3) The section of the Internal Revenue Code under which you are making your choice (IRC 58(i)(1) for the 10-year and the 3-year write-off and IRC 58(i)(4) for the 5-year write-off).
4) The year for which you are making the choice and the tax preference item to which it applies.

You may use Form 4562, *Depreciation and Amortization*, to choose the optional write-off. Once the optional write-off is selected with respect to any qualified expenditure, your choice may be revoked only with the consent of the Internal Revenue Service.

Partnerships and S corporations. If the costs described above are incurred by a partnership or an S corporation in a year beginning after 1982, the optional write-off may be chosen only at the shareholder or partner level. These costs are passed through and should be shown on line 19, Schedules K and K-1 of Form 1120S if you are an S corporation shareholder. For partners these costs should be shown on line 17 of Schedules K and K-1 of Form 1065.

Figuring Alternative Minimum Tax

The alternative minimum tax is figured by subtracting your "regular tax" from your "gross alternative minimum tax." These two terms are explained below.

Gross alternative minimum tax. To figure what your alternative minimum tax will be, you must first figure the gross alternative minimum tax. Gross alternative minimum tax is 20% of an amount figured in two steps.

First step. The first step is to determine your ***alternative minimum taxable income***, as follows:

1) Start with your adjusted gross income without deducting any net operating loss. Do not deduct from adjusted gross income interest expense incurred to purchase or carry a limited business interest in a partnership or S corporation. Estates and trusts for this purpose take the deductions for costs paid or

incurred for the administration of the estate or trust.

2) Add to this the total of all your tax preference items for the year.
3) Subtract the following itemized deductions (your alternative tax itemized deductions) whether or not you use these amounts to figure your taxable income:

Casualty losses.

Gambling losses.

Charitable contributions. Do not include any amount that can be carried forward as a charitable contribution.

Medical expenses, but to figure your deduction subtract 10% of adjusted gross income instead of the 5% that is used on Schedule A.

Home mortgage interest.

Other interest, but only up to the amount of net investment income. (See *Net investment income*, later.)

Estate tax on income that you must report as income in respect of a decedent.

If you did not use a Schedule A to figure your tax on Form 1040, complete and attach a Schedule A for the itemized deductions listed above and write "Alt Min Tax" in the top margin of your Schedule A.

For estates and trusts, itemized deductions include those deductions allowed by Internal Revenue Code sections 642(c), 651(a), and 661(a). (See *Itemized deductions for estates and trusts*, later.)

4) Subtract amounts treated for tax purposes as having been paid to you from a trust, if they were not actually paid to you during the year.
5) Subtract any amount you included in gross income with regard to the alcohol fuel credit.
6) Subtract your alternative tax net operating loss deduction (discussed later).

Second step. The second step is to subtract the amount that is exempt from the alternative minimum tax. This amount depends on your filing status. Subtract:

$40,000, if you are married filing a joint return or file as a qualifying widow or widower,

$30,000, if you are single or qualify as head of household, or

$20,000, if you are married filing a separate return. An estate or trust would also subtract $20,000.

Your gross alternative minimum tax is 20% of the amount computed in this way.

Net investment income. Net investment income is the excess of your investment income over your investment expenses.

Investment income is the sum of:

1) Your gross income from interest, dividends, rents, royalties, and any amount treated as ordinary income under the recapture rules for real and personal property and intangible drilling costs, not including income from a trade or business, plus
2) Your capital gain net income from the sale or exchange of property held for investment, plus
3) The amount of the items of tax preference for the dividend exclusion.

Investment income also includes any income or loss you have from an interest as a limited partner in a partnership or as an S corporation shareholder if you do not actively participate in the management of the corporation.

Investment expenses are those expenses directly connected with the production of investment income provided they are used to figure adjusted gross income and are not tax preference items.

If your net investment income is greater than zero, enter the amount on line 2e(2) of your Form 6251.

If you are a limited partner or an S corporation shareholder who does not actively participate in the management of the corporation, to figure your net investment income (or loss) from the partnership or S corporation, subtract the items of investment expenses shown on your Schedule K–1. Include only those expenses that are:

1) Directly related to the production of investment income,
2) Used to figure your adjusted gross income, and
3) Not items of tax preference.

Itemized deductions for estates and trusts. Itemized deductions, such as state and local income taxes, that are not alternative tax itemized deductions should be divided between estates or trusts, and their beneficiaries as if the itemized deductions were items of tax preference. This means that, for example, estates and trusts that are required to distribute all their income currently and have no items of tax preference will not be liable for alternative minimum tax.

Alternative tax net operating loss deduction. The alternative tax net operating loss deduction is figured the same way as your regular net operating loss except that:

1) For years beginning after 1982, to figure the amount of the recomputed net operating loss that can be carried from a year to which the loss was carried to another year, the recomputed loss is subtracted from the alternative minimum taxable income (as modified under the net operating loss rules) for the carryover year. This rule is applied even if you were not subject to the alternative minimum tax in that year.
2) For a loss year beginning after 1982, to figure your net operating loss you should:
   a) Reduce your net operating loss otherwise allowable by the amount of the items of tax preference arising in such year that are taken into account in figuring the net operating loss for the year, and
   b) Your net operating loss is figured by taking into account only itemized deductions that are alternative tax itemized deductions and that otherwise may be used to figure a net operating loss.

Net operating losses are discussed in Publication 536, *Net Operating Losses and the At-Risk Limits.*

Example 1. In 1984 you had income of $20,000 and losses of $35,000, of which $10,000 are preference items. To figure your alternative tax net operating loss you must first reduce your losses of $35,000 by your $10,000 of tax preference items. The $25,000 result is reduced by your $20,000 income, which gives you an alternative tax net operating loss for 1984 of $5,000. In any subsequent year to which you can carry the loss, you will reduce your income subject to alternative minimum tax by $5,000.

Example 2. Assume the same facts as in Example 1. In 1985, you have $20,000 of alternative minimum taxable income (without regard to the net operating loss deduction). You may reduce your alternative minimum taxable income to $15,000 by the $5,000 net operating loss deduction.

Your net operating loss for purposes of the regular tax will not be affected by this computation. You would have a net operating loss from 1984 of $15,000 ($35,000—$20,000).

Regular tax. After you have figured your gross alternative minimum tax (line 8 of Form 6251), subtract your regular tax to arrive at your alternative minimum tax.

To figure your regular tax that you subtract from your gross alternative minimum tax, begin with the tax from line 50, Form 1040. From this subtract the additional taxes from line 39, Form 1040.

Credits. The only credit you can use against alternative minimum tax is the foreign tax credit. Other credits may not be used to reduce your alternative minimum tax. But the alternative minimum tax may affect the carryback or carryover of certain credits. See *Carryback or carryover of certain credits*, later.

Foreign tax credit. Generally, the foreign tax credit is allowed to the extent of the foreign tax on your foreign source alternative minimum taxable income. The regular foreign tax credit is figured as explained in Publication 514, *Foreign Tax Credit for U.S. Citizens and Resident Aliens.* However, you must make certain adjustments to the amount of the tax credit that you may apply against your alternative minimum tax.

To figure the foreign tax credit, increase your total foreign taxes available (reduced by the foreign tax credit allowed against your regular income tax) by the smaller of:

1) The foreign tax credit allowed against your regular income tax, or
2) Your alternative minimum tax.

Foreign source limit. The credit cannot be more than the sum of your regular tax and alternative minimum tax multiplied by a fraction. The numerator (top part) of the fraction is your alternative minimum taxable income from sources outside the United States. The denominator (bottom part) is your entire alternative minimum taxable income. The numerator of the fraction cannot be larger than the denominator. The amount of the credit cannot exceed your alternative minimum tax.

If you choose to take a foreign tax credit, and you have an alternative minimum tax liability, you should use a separate Form 1116, *Computation of Foreign Tax Credit,* to figure the amount of foreign tax credit to apply against the alternative minimum tax. Use a separate form for each type of income listed at the top of Form 1116. Print "ALT MIN TAX" across the top of each Form 1116 you use to figure the credit against alternative minimum tax. Attach all the forms to your tax return.

In completing Part I of the separate Form 1116 to arrive at your alternative minimum taxable income from sources outside the United States, use the income, deductions, and tax preference items you used to figure your alternative minimum taxable income, but take into account only those items attributable to gross income from sources outside the United States.

The entry on line 3, Part I of Form 1116 is your alternative minimum taxable income from sources outside the United States. Carry this amount to line 6, Part III of Form 1116. (Part II need not be completed.)

In filling out Part III of Form 1116, skip lines 1 through 4. Enter on line 5 the total foreign taxes available for credit, increased by the smaller of the foreign tax allowed against your regular income tax, or your alternative minimum tax. You make this adjustment by:

1) Taking the amount from line 5, Part III of the Form 1116 you use to figure the foreign tax credit against your regular tax,

2) Subtracting the amount from line 15, Part III of that Form 1116, and

3) Adding back the smaller of the amount from line 15 of Part III of that Form 1116, or the amount from line 10, Form 6251. If you are using more than one Form 1116 for different types of income, divide the amount on line 10, Form 6251, among the Forms 1116 according to the proportion of alternative minimum taxable income from sources outside the United States reported on each.

On line 6, Part III, you should have entered the alternative minimum taxable income from sources outside the United States that you figured on Part I of this Form 1116. Complete lines 7 and 8. Skip lines 9 and 10. On line 11, enter your entire alternative minimum taxable income from line 5, Form 6251. Divide the amount on line 8 by the amount on line 11, and place the result on line 12. If line 8 is more than line 11, enter the figure "1." This is the fraction used in figuring the *Foreign source limit*, explained earlier.

On line 13, enter the amount from line 8, Form 6251. Complete lines 14 and 15 as indicated on the form, and go on to fill out Part IV, Form 1116. If you used more than one Form 1116, complete Part IV on only one Form 1116 to summarize the credits you figured on your separate Forms 1116. Carry the amount from line 7, Part IV, to line 11, Form 6251. Your credit may not be more than the alternative minimum tax on line 10, Form 6251.

Foreign tax credit carryback or carryover. To figure the foreign tax credit carryback or carryover, subtract the foreign tax credit you can take against your regular tax from the total amount of foreign taxes you paid. To this amount add the lesser of:

1) Your foreign tax credit against your regular tax, or

2) The alternative minimum tax that is applicable to your foreign taxable income.

Then subtract from this amount the foreign tax credit against your alternative minimum tax. The balance is your carryback or carryover.

Carryback or carryover of certain credits. If you pay alternative minimum tax, you may not obtain a tax benefit from certain nonrefundable credits other than the foreign tax credit. Any such credit is not lost but will be allowed as a carryback or carryover under the usual rules for that credit.

To figure the credit for any carryback or carryover to any other year that the credit is allowable, the amount of the limit for that credit for the tax year is reduced by the alternative minimum tax for the year and reduced by any allowable foreign tax credit.

For years beginning after 1983, this applies only to the following credits:

1) Residential energy credit,

2) Mortgage interest credit,

3) Research credit, and

4) General business credit (but not including the employee stock ownership credit).

Example. For the current year your regular tax liability before credits is $10,000. You also have a general business credit because of an investment tax credit of $5,000 you are entitled to and gross alternative minimum tax of $8,000.

You will pay tax of $8,000—$5,000 regular tax and $3,000 alternative minimum tax ($8,000 gross alternative minimum tax minus $5,000 regular tax). You used all $5,000 of your general business tax credit against your $10,000 regular tax, but only received benefit of $2,000 ($10,000 − $8,000). The remaining $3,000 of credit for which you received no reduction in your regular tax is an additional carryover or carryback under the general business credit rules.

Note: Where more than one credit is involved, the "additional" credit allowed as a carryback or carryover (see *Example*, above) is allocated first to the residential energy credit, next to the mortgage interest credit, then to the research credit, and last to the general business credit.

Form 6251. Use Form 6251, *Alternative Minimum Tax Computation*, to figure your alternative minimum tax. You must file Form 6251 if:

1) You are liable for alternative minimum tax,

2) You have tax preference items on lines 4c through 4k, or

3) You have an amount on line 2e(3), and line 2e(2) includes income other than interest and dividend income.

Example of Alternative Minimum Tax

Frank Smith is married and has two children. He and his wife, Mary, file a joint return on which they claim four exemptions—one each for the two of them and their two children. Frank is president of the Ajax Hardware Corporation. He also owns a one-third partnership interest in the Titan Cement Company, a partnership that makes cement using raw materials from its own quarries and gravel pits. In addition, Mr. and Mrs. Smith own stock in domestic corporations.

The following events took place during their 1985 tax year and are taken into account by Mr. and Mrs. Smith in figuring their tax liability:

1) Frank received a salary of $40,000 from Ajax.

2) Mary had a gain of $30,000 on the sale of shares of the XYZ Motor Company. She had owned the shares for more than 6 months.

3) The Titan Cement Company's net partnership ordinary loss for the year was $30,000. (Frank's share of the loss is not more than his basis in the partnership.) On real property used in the business, Titan claimed a depreciation deduction that was $15,000 more than the deduction that would have been allowed under the straight line method. The partnership also had a net gain of $18,000 on the sale of the capital assets that it had held for more than 6 months.

4) The Titan Cement Company claimed a deduction for percentage depletion for the current tax year that was $51,000 more than the adjusted basis of its mineral property at the end of the year (before adjusting basis for the current year's depletion).

5) During the year, Titan finished building its air pollution control facility. The facility was approved and certified by state and federal authorities. It chose to amortize the cost of this facility over a 60-month period, and the amount of the amortization for the year was $15,000 more than the depreciation deduction that would otherwise had been allowed.

6) Frank and Mary's dividend income for the year was $3,800.

7) Frank and Mary had the following itemized deductions:

   a) Charitable contributions of $2,300.

   b) Mortgage interest of $6,200.

   c) Unreimbursed doctor, dentist, and hospital expenses of $2,800. They also paid $1,200 for medical insurance. After subtracting 5% of their adjusted gross income from this total, the net amount claimed as a medical expense on Schedule A (Form 1040), was $1,600.

   d) Deductible taxes of $3,900.

Figuring income tax. Frank and Mary Smith now begin to prepare their income tax return. On Form 1040 they report adjusted gross income of $48,000, figured as follows:

Salary		$40,000
Dividends minus exclusion		3,600
Long-term capital gain:		
XYZ Motor Co. stock	$30,000	
Titan partnership (⅓ × $18,000)	6,000	
	$36,000	
Minus capital gains deduction (60%)	21,600	
Net capital gain (from Schedule D)		14,400
Distributive share of partnership ordinary loss (⅓ × $30,000)		(10,000)
Adjusted gross income		$48,000

Frank and Mary then figure their taxable income as follows:

Adjusted gross income		$48,000
Itemized deductions	$14,000	
Minus zero bracket amount	3,540	
Excess itemized deductions		10,460
		$37,540
Exemptions		4,160
Taxable income		$33,380

Using the Tax Table, the Smiths find that their regular income tax on a $33,380 taxable income is $5,617.

Figuring alternative minimum tax. Frank and Mary figure their alternative minimum tax on Form 6251, *Alternative Minimum Tax Computation*. They begin by entering their adjusted gross income, line 33, Form 1040, on line 1, Form 6251. This amount is $48,000. They then deduct the specific items allowed in computing alternative minimum taxable income on lines 2(a) through 2(g). The total on line 2(i) is $8,500. Their adjusted gross income minus these itemized deductions, $39,500, is entered on line 3. Frank and Mary enter their tax preference items on lines 4(a) through 4(k):

The dividend exclusion is shown on line 4(a). Frank and Mary's dividend exclusion is $200.

The capital gain deduction of $21,600 that Frank and Mary deducted from the capital gains they had from the Titan partnership and the sale of XYZ Motor Company stock is entered on line 4(b) of Form 6251.

Accelerated depreciation on real property, to the extent that it is more than straight line depreciation, is entered on line 4(c). Frank and Mary's tax preference on real property depreciation is their distributive share of the partner-

ship's tax preference. This is ⅓ × $15,000, or $5,000.

Amortization of certified pollution control facilities that is more than the depreciation otherwise allowed goes on line 4(e) of the form. Frank and Mary's distributive share of the Titan partnership's tax preference for amortization is $5,000 (⅓ × $15,000).

Depletion that is more than the basis of property at the end of the year is shown on line 4(i). Frank and Mary's distributive share of the Titan partnership's tax preference for percentage depletion is $17,000 (⅓ × $51,000).

Alternative minimum taxable income. The total of all Frank and Mary's tax preference items, $48,800, is entered on line 4(l). This total is added to the amount on line 3. The sum, $88,300, is their alternative minimum taxable income. This amount is entered on line 5.

Alternative minimum tax. Since Frank and Mary are filing a joint return, they enter $40,000 on line 6 and subtract it from line 5. The difference, $48,300, is entered on line 7. Frank and Mary multiply line 7 by 20%. This amount, $9,660, is their gross alternative minimum tax. From this figure, they subtract their regular tax, $5,617. The difference, $4,043, is their alternative minimum tax. This amount is entered on lines 10 and 12. It is then carried to line 52 of Form 1040.

Form **6251**
Department of the Treasury
Internal Revenue Service

Alternative Minimum Tax Computation

▶ Attach to Forms 1040, 1040NR, 1041 or 990-T (Trust).

OMB No. 1545-0227

1985

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Name(s) as shown on tax return: Frank and Mary Smith

Identifying number: 222-00-2222

1	Adjusted gross income from Form 1040, line 33 or Form 1040NR, line 32 (see instructions)				1	48,000
2	Deductions (see instructions):					
a	(1) Medical and dental expense from Schedule A, line 5	2a(1)	1,600			
	(2) Multiply Form 1040, line 33 by 5% (.05)	2a(2)	2,400			
	(3) Subtract line 2a(2) from line 2a(1). (If zero or less, enter zero)			2a(3)	-0-	
b	Contributions from Schedule A, line 18			2b	2,300	
c	Casualty and theft losses from Schedule A, line 19			2c		
d	Qualified interest on property used as a residence from Schedule A, line 11			2d	6,200	
e	(1) Interest, other than line 2d above, from Schedule A, line 14	2e(1)				
	(2) Net investment income (If zero or less, enter zero)	2e(2)				
	(3) Enter the smaller of line 2e(1) or line 2e(2)			2e(3)		
f	Gambling losses to the extent of gambling winnings from Schedule A, line 22			2f		
g	Estate tax allowable under section 691(c) from Schedule A			2g		
h	Estates and trusts only: Charitable deduction and income distribution deduction			2h		
i	Add lines 2a(3), b, c, d, e(3), f, g, and h				2i	8,500
3	Subtract line 2i from line 1				3	39,500
4	Tax preference items:					
a	Dividend exclusion			4a	200	
b	60% capital gain deduction			4b	21,600	
c	Accelerated depreciation on nonrecovery real property or 15 (or 18)-year real property			4c	5,000	
d	Accelerated depreciation on leased personal property or leased recovery property other than 15 (or 18)-year real property			4d		
e	Amortization of certified pollution control facilities			4e	5,000	
f	Mining exploration and development costs			4f		
g	Circulation and research and experimental expenditures			4g		
h	Reserves for losses on bad debts of financial institutions			4h		
i	Depletion			4i	17,000	
j	Incentive stock options			4j		
k	Intangible drilling costs			4k		
l	Add lines 4a through 4k				4l	48,800
5	Alternative minimum taxable income (add lines 3 and 4(l)) (short period returns, see instructions)				5	88,300
6	Enter: $40,000, if married filing joint return or Qualifying widow(er) $30,000, if single or head of household $20,000, if married filing separate return or estate or trust				6	40,000
7	Subtract line 6 from line 5. If zero or less, do not complete the rest of this form				7	48,300
8	Enter 20% of line 7				8	9,660
9	Amount from Form 1040, line 50, or Form 1040NR, line 51. (Do not include Form 1040, line 39, or Form 1040NR, line 41.) (estates and trusts, see instructions)				9	5,617
10	Subtract line 9 from line 8. If zero or less, enter zero				10	4,043
11	Foreign tax credit				11	
12	Alternative minimum tax (subtract line 11 from line 10). Enter on Form 1040, line 52, Form 1040NR, line 52, Form 1041, line 31, or Form 990-T, page 1, line 14				12	4,043

Worksheet for Computation of Minimum Tax
Use to figure your deferred pre-1983 minimum tax

1) Enter minimum tax deferred from pre-1983 years to 1985 ..... $_____

2) Excess tax credits. If line 50, Form 1040, is more than zero, skip this line and enter the amount from line 1 on line 4. If line 50, Form 1040, is zero enter any unused part of the following tax credits.*

   a) Credit for the elderly ..... $_____
   b) Credit for political contributions ..... _____
   c) Credit for child care expenses ..... _____
   d) Residential energy credit ..... _____

3) Add lines 2(a) through 2(d) ..... $_____

4) Subtract line 3 from line 1. If line 3 is more than line 1, enter zero. Enter here and on line 52, Form 1040 (or line 31 of Form 1041) and write "Deferred Minimum Tax" in the margin ..... $_____

*Note: Your unused tax credit is the portion of certain credits that you were unable to use against your tax as shown on line 40, Form 1040. Only the tax credits shown in 2(a) through 2(d), above, may be claimed against your minimum tax and must be applied in the order listed. For example, if line 50, Form 1040 is zero after using the credit for the elderly and part of the credit for political contributions to figure that line, enter the balance of the credit for political contributions, credit for child care expenses, and residential energy credits on this worksheet.

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